

## EXHIBIT B

### **FINANCIAL FEASIBILITY STUDY GUIDELINES**

A financial feasibility study demonstrates, among other things, that loan proceeds, together with cash flow of the facility, are sufficient to complete the project and to cover annual debt service requirements.

A financial feasibility study consists of historical and prospective financial statements and other pertinent information that present, to the best of the applicant's knowledge and belief, a facility's expected financial position, results of operations, and changes in financial position. A financial forecast is based on the applicant's assumptions reflecting conditions it expects to exist and the course of action it expects to take.

In addition to management's expected outcome, the feasibility study should include sensitivity analyses as appropriate or as requested by the State Project staff (i.e., elimination of Medicare capital pass through, changing market interest rates, variance in utilization, reduction in grants or contract, etc.).

The fundamental purpose of a financial feasibility study is to determine and evaluate an applicant's ability to repay borrowed funds. Specifically, it compares the relative size of positive cash flow to principal and interest payments on the proposed debt.

Please note that financial statements and other financial information submitted to Cal-Mortgage are not confidential information under the California Public Records Act and may be disclosed upon request.

All financial feasibility studies prepared for the program are to be incorporated into the Official Statement or Offering/Private Placement Memorandum either by reference or in their entirety. If the study is only to be referenced, the name of the preparing feasibility firm and the date of the study are to be cited.

The feasibility study must be prepared by a firm with expertise in health facility financial consulting. The firm should have sufficient resources and expertise to do the study and render an opinion. While Health and Safety Code Sec. 129095 allows the applicant to choose its consultants, in order to avoid any potential conflict of interest, the feasibility study should be prepared by someone other than the corporation's auditing firm of record.

Failure to follow these guidelines may adversely affect approval of the project. Furthermore, submitting a study following these guidelines does not guarantee approval of the project.

Tables of data, where appropriate, should be expressed in actual amounts and percent of change.

*The financial feasibility study is to describe the assumptions underlying the financial analyses, in addition to historical and forecasted financial statements.*

## **I. Instructions for Assumptions and Rationale**

### **1. Background and Description**

- a. History and background of the Applicant and the onsite management company operating the facility, if any.
- b. EXISTING FACILITY: If the project is a renovation or expansion, provide an overview of the size, services provided, occupancy rate, and service area of the existing facility; If the Applicant owns and/or operates other health facilities, briefly describe as well.
- c. NEW FACILITY/PROJECT: Describe the project components, including the physical facility, size, services provided, service area (if different from existing facility), expected utilization of services added by the project, and sources of new revenue for the project.

### **2. Project Costs and Financing**

Provide a detailed Sources and Use of Funds breakdown.

- a. The construction cost "detail" should be provided by the design architect, a cost estimator, or the general contractor who will perform or manage the actual construction. Validation of construction costs by an independent cost estimator is important to the believability of the project budget. The construction cost should include a contingency allowance. (The Project Officer may require an additional contingency based on the facts and circumstances of the project.)
- b. Provide conceptual design and accompanying narrative describing how the proposed square footage is appropriate to current and mid-range future space needs of the facility. For replacement projects describe why the existing site is inadequate and how the replacement facility will alleviate the problem.
- c. Provide a square footage cost for the space. How does this project's costs compare to costs with other similar type facilities in the area. Describe any major cost variations.

### **3. Historical and Forecast of Facility Utilization**

- a. The history of facility utilization should be shown for the facility overall and for the specific services involved with the project. For example, if the project includes increasing ob/gyn beds, the historical and projected occupancy rates should be shown.
- b. If the applicant/project is a clinic, provide historical and projected encounters, as well as yearly encounter documentation for each physician and mid-level medical FTE equivalent.
- c. The applicant should explicitly state how the forecast utilization will be achieved. It is not sufficient to assume future utilization will equal historical utilization. This section should contain demographic data, patient/payor mix, average length of stay, and other information sufficient to justify the utilization assumptions.
- d. Document the historical record and current plan for provider recruitment and retention (Kaiser, county health departments, medical groups, etc.).

#### 4. Historical and Forecast of Revenues

- a. Provide forecast revenue data for the facility overall, as well as the new service(s) added by the project. The forecast should be supported by a discussion of how the revenue items were determined, including assumed rates of increase in charges and contractual allowances. Changes in revenue due to cost containment, utilization trends, and payor mix should be explicitly addressed, as well as the impact of existing contractual relationships, as described in Item 8.
- b. Delineate the patient revenues by source (including Medicare, Medi-Cal, AFDC, Bronzan McCorquodale realignment funds, county probation, regional centers for the developmentally disabled, residential care, personal care, accommodation fees, etc.) and percentage of total patients/residents.
- c. If the clinic is Federally Qualified Health Center (**FQHC**), identify the current and prior (**FQHC**) encounter rate approved by Medi-Cal.
- d. Delineate all grants by source. If the feasibility study assumes an inflation rate for grant income in excess of 2% per year, explain.
- e. Identify and age accounts receivable by source.

#### 5. Historical and Forecast of Expenses

- a. Provide historical and forecast expense data in the same level of detail and show the expenses associated with the service(s) added by the project. The presentation should include a breakdown of FTE's.

The forecast should be supported by a discussion of how the expense items were determined, including assumed rates of inflation for labor, utilities, supplies, etc., and any changes that will occur from different methods of operation.

6. Historical and Forecast of Working Capital Requirements

Identify the explicit assumptions used to determine working capital requirements. For example, was it calculated as a percentage of operating expenses and revenues? By another method?

7. Description of Long-Term Debt and Debt Service Coverage

Prepare a Debt Service Coverage Schedule with 3 years historical and 5 years forecasted ratios.

8. Effects of Contractual Allowance, Discounts and Capitation

Please provide the following information:

- Medi-Cal: If you are a contracting hospital, provide the current term of your contract and allowed daily rate of reimbursement; if you are a contractor to a Medi-Cal hospital, describe the nature of the contract.
- Medicare: Describe the basis of reimbursement under Medicare; if you are providing Medicare as a health maintenance organization (**HMO**) or a comprehensive medical plan (**CMP**), please describe.

Provide the estimate of total Medicare patient days and revenue assumed in the revenue projections over the forecast period. Compare this to historical expense.

- Third-Party Payors: Identify insurance companies or employers with whom you have preferred provider (**PPO**) arrangements, or HMO, or IPA contracts. Describe the terms of reimbursement under these contracts or the discount percentage and the percentage of revenue each contract generates. Also, if the facility, alone or with others, offers a PPO directly to employers, describe the nature of that arrangement.

Provide the estimate of total patient days and revenue assumed in the revenue projects for each type of contracts or arrangement over the forecast period.

9. Table of Per Diem Revenue by Historical and Forecast Year

The patient days used in the calculation should be the same as Item 10. Calculate the percentage increase from year-to-year. Explain the differences between historical and forecast rates of increase, and any deviation between future increases and assumed revenue increase.

10. Table of Per Diem Expense by Historical and Forecast Year

Provide the total patient days (actual and assumed) used to calculate per diem expense. Calculate the percentage increase from year to year (historical and forecast). Explain any difference between historical and forecast rates of increase, as well as any deviation between future increase and assumed expense inflation.

11. Table of Routine Cost Per Diem and Medicare Limit Per Diem for Historical and Forecast Years

This section applies to skilled nursing facilities. The applicant should complete this for historical periods and for future periods if it expects to receive Medicare reimbursement by methods other than DRG's or CMP/HMO contracts.

12. Lease vs. Purchase Analysis

Prepare a schedule of continuing to lease the facility versus purchasing the facility.

13. Refinancing Project

If the project is refinancing existing debt, identify the amount of savings by year as well as a percent of the present value savings.

**II. Managed Care Involvement**

1. Is the proposed project located in a county scheduled to implement mandatory Medi-Cal managed care for AFDC recipients over the next 2 years? If yes, provide the Office with a copy of the County's draft managed care implementation plan.

2. If yes, describe the facilities referral and marketing plans for attracting capitated Medi-Cal enrolls. Provide written documentation of referral and joint-marketing plans with either local initiative or main stream option payors/provider networks.
3. Provide lists of all area physicians/provider networks currently involved in either Medi-Cal managed care or primary care case management (**PCCM**) contracting. If possible, provide documentation indicating historic enrollment levels and current and future provider interest in competing for Medi-Cal managed care patients.
4. Indicate the facility plans for competing with #3.

### **III. Instructions for Historical & Forecast Financial Statement**

1. Provide three (3) years historical and five (5) years Proforma Statements for the Balance Sheet, Income & Expense Statement, Cash Flow Statement, and Statement of Changes in Fund Balance.
2. The Balance Sheet should reflect any reserves that are required (debt service, insurance, refund, charity, fill-up, capital improvements, etc.).
3. For the Income & Expense Statement, also include percent of changes over the preceding year.
4. For all historical and forecast years, show the following ratios and data:
  - a. Current Ratio
  - b. Days in Patient Accounts Receivable
  - c. Days Cash on Hand
  - d. Equity Ratio
  - e. Asset to Long Term Debt Ratio
  - f. Operation Margin
  - g. Days Payable
  - h. Debt Service Coverage

### **IV. Demand Analysis**

1. Describe how the service/market area was determined.
2. Describe the demographic and economic factors of the service/market area relating to income, housing, employment, transportation, and population.
3. Identify any existing or proposed similar type facility within the

service/market area and describe and compare the terms of the market share, size, historical utilization, distance from the facility and fee structure (including entrance fees and monthly service fees if applicable). Indicate whether the competing facilities have payment arrangements similar to the facility (i.e., Medi-Cal, Preferred Physician Option, Health Maintenance Organization, Comprehensive Medical Plan, etc.).

4. Identify Cal-Mortgage insured facilities providing competing services in the primary and secondary service areas.
5. In forecasting utilization for multi-level (CCRC / RCFE) facilities, describe the marketing plans including sales person's method of compensation and any health or asset screening procedures (if applicable).
6. Provide maps and other relevant documentation, which illustrates that the proposed facility is conveniently located in the target population and is in reasonable proximity to referring providers.

## **V. Additional Requirements**

### **1. Clinics**

- a. Indicate the clinic's linkage with local hospitals and commonly used specialty providers.
- b. What are the clinic hours of operation? Are there plans for Saturday and evening hours? If not, why not?
- c. Describe the clinic's financial system(s) for documenting cost accounting and describe the billing and collection system.

### **2. Multi-Level Health Facility (CCRC / RCFE)**

- a. Provide documentation as to how the facility/Applicant intends to meet the financial risks associated with:
  - i. Initial fill-up of the facility.
  - ii. Health care costs for short term acute care or rehab SNF care.
  - iii. Turnover or mortality within a mature facility.
  - iv. Resident asset depletion or charity care.
- b. Describe how the facility proposes to cover the cost of healthcare for residents whose health (**HMO**) plan will direct them to a different HMO designated skilled nursing facility for post operative or convalescent care.